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## CRISIS: EFFECTS IN THE ECONOMIC AND SOCIAL FIELD

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**Abstract:**

*This paper aims to examine how issues relating to the economic crisis on society nationally and internationally. It reflects its own analysis based on own research aspect based on several macroeconomic indicators. To this end I studied the relationship between financial crisis – the economic crisis – social crisis – political crisis.*

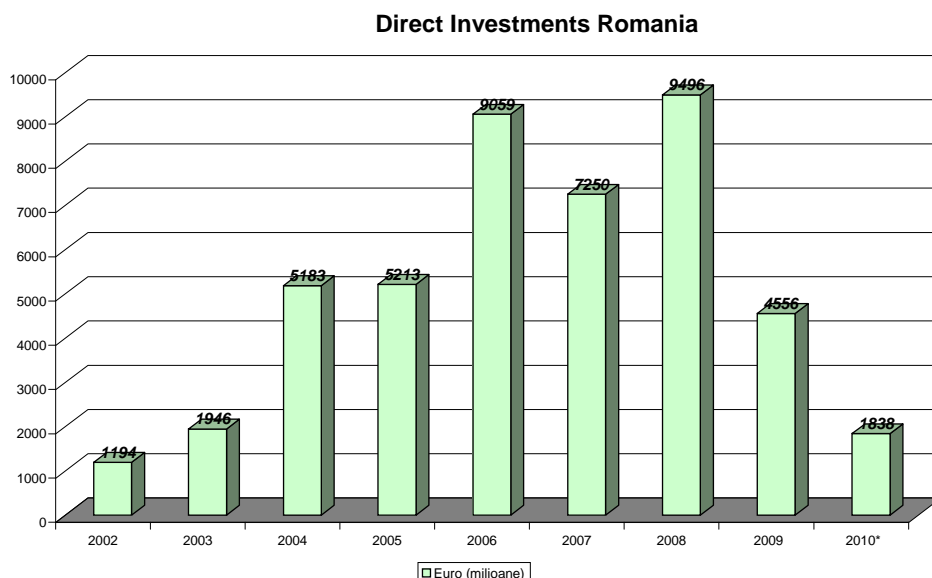
**Keywords:** *crisis, direct investment, economic growth rate, unemployment rate*

What is going on in the Romanian economy must not let us be impassive. The economic evolution during the last few years determines us to analyze a number of elements, which may reflect a certain perspective related to the future.

Certainly, a number of stages have existed in the evolution of the economic crisis, both at an international and national level.

The first stage of the crisis seen at a worldwide level, has started, of course from the financial-banking crisis, in which Romania had a wave of spreading a bit delayed, but devastating. Even if it seems odd, this first leg of the crisis at an international level was relatively easy to prevent, the Governments of the highly developed countries intervening on the market with high infusions of capital. The cost of this action could be estimated to approximately 700 billion dollars. The international banking system was saved in mid-2009, and the situation was steady enough to be considered, rightly, that the major catastrophe had been avoided.

If we ought to look at the situation in Romania, we may notice for sure that this propagation wave in the financial-banking market is reflected in the direct investments from the Romanian economy from a negative point of view. After several years in which the investments had an upward trend, a dramatic decrease of the investments had reached the Romanian economy after 2008 (from 9.5 billions in 2008 to 1.8 billion euros in 2010), reaching the end of the year to record levels of foreign direct investment, comparable with 2003.



**Figure 1. Evolution of Direct Investments in Romania**

Source: National Bank of Romania

Unfortunately, the consequence can be seen and will be visible in the nearest future, when we talk about reducing economic growth, low employment in the economy and a significant increase in unemployment. This impact in the Romanian economy is due to the fact that roughly 80% of the banks which are operating in Romania have major foreign capital and the crisis experienced by parent banks to spread directly over them.

The second leg of the crisis affected the real economy in a natural way. The difficulties that the financial-banking system had encountered were mostly visible in the credit field. Without the "source of energy" supplying the work, the economy started to show failures. Bankruptcy of banks in the first stage, turned into the bankruptcy of companies, or restricting their activities in the second phase.

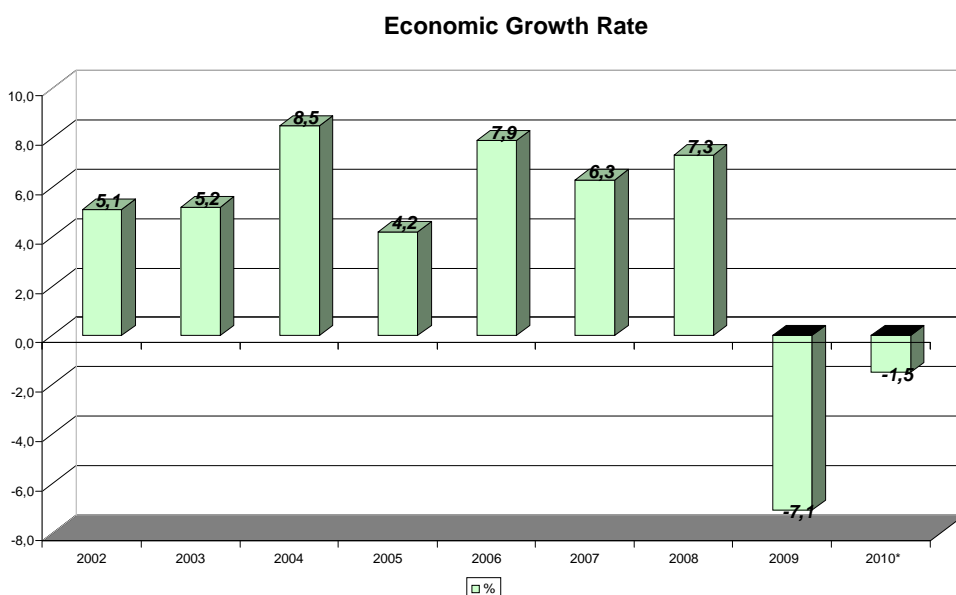
The intervention of the countries was restrained, and due to the fact that you can sustain a bank with capital infusion, it is very uneasy to help a small or a mid company which has lost its marketplace. You can not buy the production for state reserves, for example, and you can not find in due time an indoor or outdoor marketplace.

France created an investment fund designed to help entrepreneurs, Germany has reduced taxation, Britain sought a redistribution of resources, Romania has tried many and failed to nothing.

And because I spoke about Romania, at a simple analysis of the economic situation, we may observe that the economic growth rate had a sinusoidal evolution until 2008, while member countries of the European Union had a significant growth, but 2008 everything started to collapse. Not even in 2010, while member countries of the

EU recorded positive growth (fair enough, small ones), Romania can not pass the threshold of positive growth after the latest estimations. This is primarily due to the lack of active policies to encourage entrepreneurs in economic activity and also the lack of consistency in government's economic measures designed to stimulate the weakened economy.

The exports collapsed, the domestic market has constantly dropped, traders were hit by the financial crisis, all these things worsening the current economic situation. Those who were in debt soaring growth period found themselves suddenly insolvent, the state made redundancies to avoid an increase in external debt, and in this way the economic decline became inevitable (going from 7.8% in 2008 to -1.5% in 2010 and going through a painful -7.1% in 2009).



**Figure 2. Evolution of Economic growth rate in Romania**

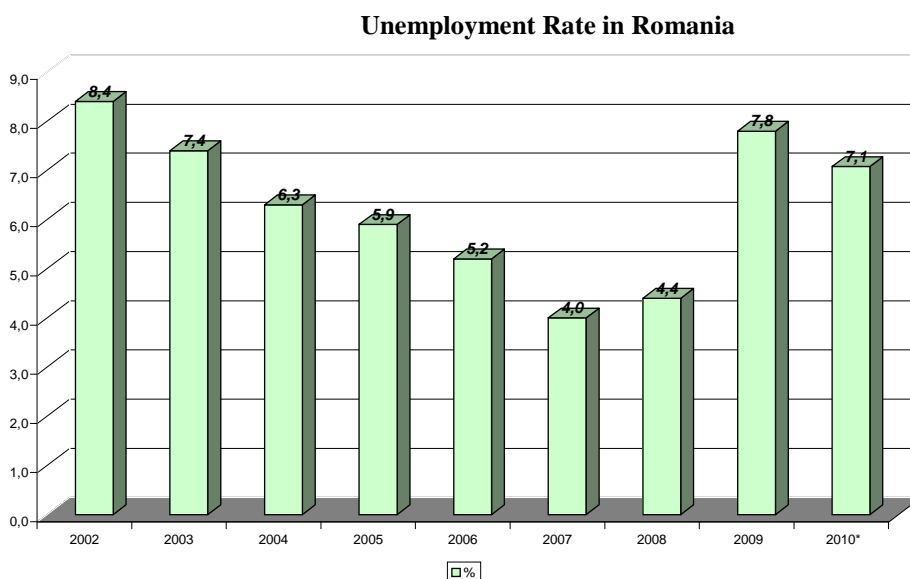
Source: National Bank of Romania

The paid price for this second stage has taken the unemployment to a high level. This unemployment growth merged in a negative and unhappy way with the price, and with major capital expenditures. This led to a spectacular growth of deficits especially in Europe which led to a new stage in the economic crisis: the social crisis. A careful approach of the evolution of unemployment data shows that after a pretty significant decrease, an equally dramatic increase followed. Of course, the evolution of the economic crisis was visible and this was evidenced in both Romania and EU countries.

The main economic sectors have suffered, because they had no choice. They were forced to reduce their deficits, in addition to the lack of resources in the economy, economies have resorted to massive cuts in public sectors and to significant reductions in spending money in the idea of not converting the initial crisis into a public debt, as severe as it can.

Moreover, they followed the state sector layoffs, salary cap or even reductions, the retirement age increased even for a short time to reduce pressure on the pension fund. All this measures are less costly from the economic point of view (they incline more to savings than outlay), but are extremely painful from the social point of view.

Events in Greece, France, Spain and Romania have already proved this. If we refer strictly to Romania, the unemployment evolution rate is not at all a reason to be happy. It may be remarked that this economic crisis caused an increase in the unemployment rate at a high level, enough if we were to do a comparison with the previous years. The values registered this year, return us to the level encountered in 2003, which is not gratifying at all.



**Figure 3. Evolution of Unemployment rate in Romania**

Source: ANOFM

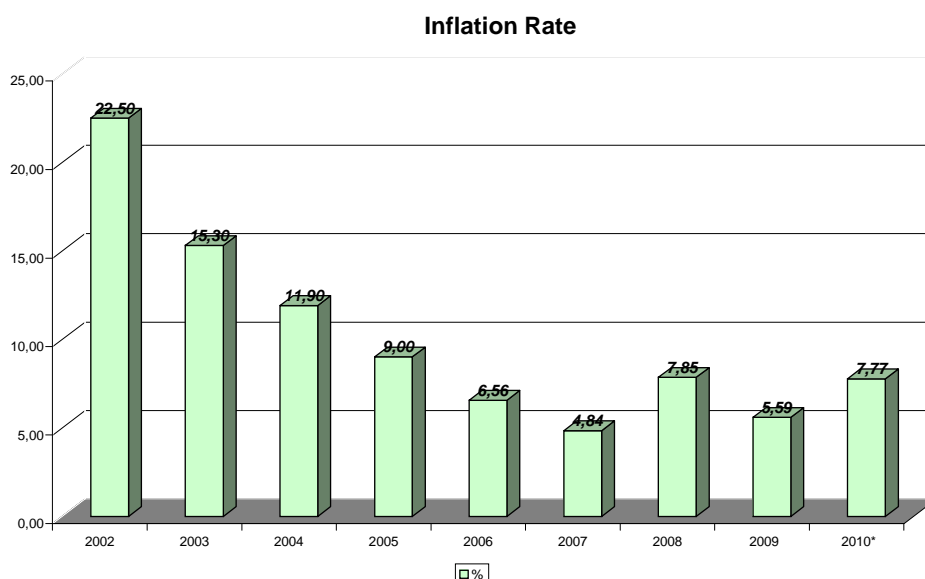
Certainly, an economic recovery based on actions and policies of economic stimulation would result in medium-and long-term decrease in unemployment. In the conditions in which all governors speak of economic growth that could be achieved in the near future to influence the growth of living standards, it should be noted that this

increase in living standards will be felt only when entrepreneurs are going to employ again, and the unemployment rate will be reduced.

We must not forget another important indicator in the economic analysis, the rate of inflation. Even if in the condition imposed by European Union countries that inflation must not exceed 2%, we can see that in Romania it is practically unattainable in the near future.

Of course, in the past there were many factors that negatively influenced the failure of the EU-imposed targets, but with the advent and increase, this economic crisis seems less feasible.

Even if there were at a given time assumptions that led to lower prices of goods and services due to reduced market demand and automatically fall in consumption, inflation did not follow a downward trend but rather a significant increase. This thing is mainly due to the depreciation of the national currency, exports reduction and, of course, the influence of the products prices imported by the Romanian economy. As seen in the graph, in the period of the economic growth that Romania recorded in 2007-2008, there was an inflation rate of 4,8%, followed thereafter by an increase in the estimated level about 7,7%, and by this year is being estimated a growth up to 7,7%. Efficiency and effectiveness of the Romanian economy are putting their negative mark on this extremely important indicator both for the economy and for the standard living of the population. A correlation of the inflation with the interest rate applied by banks operating in the economy, shows that in the near future lending (enabler of development investment) will be negatively affected which leads us to conclude that not even in the near future there is a small possibility of fast and efficient economic revival for our country.



**Figure 4. Evolution of Inflation rate in Romania**

Source: National Bank of Romania

Taking into account every stage, it can be concluded that there might be a fourth stage (not insignificant), that could strike seriously both the economic and social life. It is all about the political impact that may prove cruel in the long term. It can be very visible both in Romania and Europe. This impact refers to increasing extremes, despite the dominant political and economical doctrines. The premises which were based on a growth in the last few decades-EU Project, large prosperity, social security etc-is dangerously shaking under the weight of successive blows of the crisis.

Under these circumstances, voters are more easily persuaded by radical slogans which are other than what they normally hear, that amid violent destructuring of traditional doctrines, especially after the economic crisis.

On the capacity of Governments that are having the power in these tough moments, will depend the occurrence or avoidance of the fourth (potential) impact. If any solutions are to be found quickly in order to slow down the social pain, and if the suffering voters are to be persuaded, catastrophe is going to be avoided. If they will try to use the classic arsenal, they will fail and the consequences will be disastrous, putting in danger even the European project.

In the past century, the world has never overstepped the catastrophe of World War II due to the economic crisis - this had been exceeded in 1933-1934 - but because of its political consequences. This is the most important lesson for those who, today, lead our destinies.